India Together: Inclusive. Ahead. Responsible

Confederation of Indian Industry

ASCON Industry Survey

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Contents

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23, Institutional Area, Lodi Road, New Delhi-110003 (INDIA), Tel: +91-11-24629994-7,
Fax: +91-11-24626149; Email: info@cii.in; Web: www.cii.in

EXECUTIVE SUMMARY

The CII ASCON Survey, which tracks the growth of the industrial sector through the responses collected from sectoral industry associations, reveals slight improvement in growth trends in terms of production in Q1FY18 quarter over the corresponding quarter a year ago. However, the pace of recovery continues to be on the slow track in the surveyed quarter.

This is borne out of the fact that out of the sectoral responses received for 78 sectors, while the share of sectors registering 'Excellent' growth (>20%) has come down marginally, the share of sectors registering 'High' (10-20%) and 'Moderate' (0-10%) growth has shown improvement as compared to Q1FY17. At the same time sectors witnessing 'Low' growth (< 0%) has come down as compared to the corresponding period a year ago.

Of the sectors surveyed, the share of sectors witnessing 'Excellent' growth has registered a slight moderation in Q1FY18 coming down to 7.7 percent (6 out of 78) as against 9.0 percent (7 out of 78) in the same quarter a year ago. The share of sectors witnessing 'High' growth has slightly increased to 16.7 percent (13 out of 78) from 14.1 percent (11 out of 78) recorded in the same quarter previous year. At the same time, while the share of sectors witnessing 'Moderate' growth has improved to 47.4 percent (37 out of 78) in the April-June FY18 from 39.7 percent (31 out of 78) the share of sectors recording 'Low' growth has declined substantially to 28.2 percent (22 out of 78) as against 37.2 percent (29 out of 78) a year ago period. This reveals that while the growth trends are still concentrated in the moderate category, the pace of de-growth has come down.

A further analysis of the growth trends at the aggregated level with industry being classified into broad segments in terms of performance of production viz 'Excellent' and 'High' (above 10 percent) on one hand and 'Moderate' and 'Low' (below 10 percent) on the other, also point towards slight improvement in the growth trends in the surveyed quarter. The share of sectors registering growth greater than 10 percent has inched up to 24.4 percent in Q1FY18 as compared to 23.1 percent in Q1FY17. At the same time, the share of sectors registering growth less than 10 percent has marginally come down to 75.6 percent in the surveyed quarter as against 76.9 percent in same period a year ago. Given the fact that nearly three-fourths of the sectors surveyed still remain below 10 percent growth levels, the growth trends indicate a modest pace of recovery in the surveyed quarter.

A further detailed analysis of the sectors reveals a mixed picture of recovery in Q1FY18. In the primary and intermediate goods categories, a large number of sectors have reported growth numbers falling under the ‘Moderate’ to ‘Low’ growth category. While the steel production has posted a modest growth, cement production remains in contraction mode. This is despite the Government’s continued focus on infrastructure development, affordable housing etc.

The Capital Goods sector, a bellwether for actual implementation of the announcements on the ground, has also shown mixed trends. The subsectors in the capital and engineering goods sectors (like machine tools, textile machinery, earth moving and construction equipment, distribution equipment, tractors etc.) have reported a fall in the high growth category in the current quarter. Sectors like transmission line towers, capacitors, cables have registered moderate growth. This points to the fact that the investment cycle is yet to show its effects in a broader way. A host of factors such as low order inflows as a result of continued weakness in the private investment and infrastructure space, existing overcapacities in some sectors and the recent demonetization has impacted growth in some sectors.

In terms of production growth, impact of pre-GST inventory de-stocking was visible on production trends in the consumer durables sector. In the auto sector, while the passenger vehicle segment continued to post robust growth, slowing in production was witnessed in other segment in the surveyed quarter.

On services front, freight cargo by air and railways registered a strong performance. The tourism sector was supported by a firm growth of foreign tourist arrivals and air passenger traffic.

On the consumption front, the data on high frequency indicators reflecting consumption activity such as sale of passenger cars and two-wheelers showed continued robustness in the demand. Commercial vehicle sales rose after two successive months of contraction in response to the Bharat Standard (BS)-IV emission compliance switchover. Similarly, the tractor segment, a measure of customer sentiments in the rural markets has also shown improvement.

On a sequential quarter-on-quarter basis also, the Survey reveals a minor uptick in the growth trends in Q1FY18 as compared to Q4FY17. While there has been a marginal decrease in the sectors reporting ‘Excellent’ growth, there has been a slight increase in the share of the sectors reporting ‘High’ and ‘Moderate’ growth. The share of sectors reporting ‘Excellent growth has come down to 7.7 percent (6 out of 78) in Q1FY18 from 9 percent (7 out of 78) witnessed in Q4FY17, whereas the share of sectors reporting ‘High’ growth has slightly increased to 16.7 percent (13 out of 78) from 14.1 percent (11 out of 78).

On the other hand, the share of sectors recording ‘Moderate’ growth has surged up to 47.4 percent (37 out of 78 sectors) as compared to 41.0 percent (32 out of 78 sectors) in Q4FY17. The numbers of sectors recording ‘Low’ growth has declined to

28.2 percent (22 out of 78 sectors) in Q1FY18 as against 35.9 percent (28 out of 78 sectors) in Q4FY17.

In line with the on ground experience, indicating slow private capex along with post demonetization impact and stock liquidation pre GST implementation, the capacity utilization trends have continued to remain weak. According to the survey, around 66.7 percent have reported capacity utilization in the range of 50-75 percent for April-June FY18. This is in a stark contrast with the previous quarter, where 16.7 percent of the respondents reported the capacity utilization to be in the range of 75-100 percent. 83.3 percent of the respondents have reported capacity utilization to be in the range of 50-75 percent with no response of capacity utilization being below 50 percent for any of the surveyed sectors.

Going forward, the survey results point towards improvements in capacity utilization in the July-September quarter. Good monsoons, ramping up of production with onset of the festive season and re-stocking of inventory post implementation of GST are expected to improve the capacity utilization in the quarter ahead. While 66.7 percent of the respondents expect capacity utilization to be in the range on 50-75 percent in Q2FY18, 33.3 percent of the respondents have reported the capacity utilization to be in the range of 75-100 percent. Whereas, no expectations of capacity utilization below 50 percent has reported for the next quarter.

With respect to issues and concerns impacting growth, high tax burden (50.0%) and transport infrastructure bottlenecks (50.0%) have been reported as the top most issue facing the industry. Cost and availability of finance (44.4%) and lack of domestic demand have been cited as the second most important issues. Whereas 37.5 percent of the respondents have reported high regulatory burden and shortage of skilled labour/talent as the most important constraints.

On the industry outlook for the next six months, overall trends point towards moderate improvement in the business situation in the next two quarters. 75 percent of respondents expect the overall business situation to improve moderately in the next six months, while a majority of respondents expect the situation on the new orders and stalled projects to improve moderately in the coming quarters. Reflecting no major improvements on the investments front, 66.7 percent of respondents expect the situation on new investments to remain the same in the next six months.

Reflecting improvements in demand conditions going forward, 42.9 percent of respondents expect the situation on the exports front to improve moderately and 57.1 percent of respondents expect the situation on exports to remain same. On the imports front, 55.6 percent of respondents expect the situation to remain static, whereas 22.2 percent of respondents are of the view the situation will improve moderately. On the sales front, 60 percent of the respondents expect the situation to improve moderately in the next two quarters.

To further push the pace of recovery in the economic and sectoral growth, the respondents to the CII ASCON survey have suggested on the implementation of the various announcements in the Union Budget 2017-18, resolving the stalled projects situation and continuing with the business environment reforms especially trading and exports. With respect to GST, while the rates remain structurally positive on various sectors, some of the concerns highlighted by the Industry include - more clarity on area-based exemptions and subsuming of 'Road Tax', 'Alcohol' and 'Petroleum' under GST. Some of the sectors that have sought for reviewing the GST rates for their sectoral items include hybrid vehicles, monitors of all sizes, networking cables and connectors, construction equipment, plastic items and glass products.

ECONOMIC OVERVIEW

Since our last Survey, there has been a gradual improvement in the global macro-economic environment. Lead incoming indicators point towards improvement in global recovery in 2017-18. Among the advanced economies, US has expanded at a faster pace in April-June 2017 quarter. Euro area, the recovery has broadened across constituent economies on the back of falling unemployment and a pickup in private consumption. In Japan, GDP grew more strongly than expected in April-June 2017 quarter, growing steady for the six consecutive quarters, the longest witnessed since 2005-06.

Among emerging and developing economies, in China, economic growth topped expectations again in the April -June quarter with GDP expanding 6.9% from a year earlier, with retail sales and industrial production rising at a steady pace. The Russian economy has emerged out of two years of recession, aided by falling unemployment, rising retail sales and strong industrial production.

On the domestic front, there have been mixed signals of growth. The estimates of the GDP growth for FY17 indicate a relatively slower growth for the Indian economy at 7.1 percent as against 7.9 percent in FY16. While the economic recovery has been on a slow track the incoming data point towards steady improvement in the domestic macro situation - fiscal, inflation and external conditions.

Growth in exports registered a sharp increase in FY17 to 5.4 percent as against a deceleration of 15.4 percent last year. Also, on q-on-q basis, exports improved from 10.2 percent in Q1FY18 as compared to -1.6 percent in the same period last year. However, growth in exports slowed down from 18.3 percent in Q4FY17 to 10.2 percent in Q1FY18 signaling tepid global demand.

Net foreign direct investment doubled in April-June 2017 over its level a year ago, flowing mainly into manufacturing, retail and wholesale trade and business services. Foreign portfolio investments crossed a record US $19 Bn so far (up to August 11, 2017), remaining bullish on the outlook for the Indian economy. The level of foreign exchange reserves was US$ 392.9 billion as on July 28, 2017.Reaffirming further that India's structural story remains strong the Rupee continued to be one of the best performing currencies in the world. Indian Rupee continued to surge to a two-year high of 63.60 against the dollar on 3rd August 2017.

On the sectoral front, a normal and well-distributed south-west monsoon for the second consecutive year has brightened the prospects of agricultural and allied activities. The progress of the monsoon has been favorable till date with 86% of country, in area terms, receiving normal to excess rainfall. This bodes well for rural demand.

However, on the manufacturing front, a broad-based loss of speed has been witnessed in the first quarter. On a quarterly basis, industrial output growth registered a four year low data-point for April-June FY18 slowing down to 2 per cent from 7.1 per cent last year. Industrial output entered the negative territory in June, contracting by 0.1 per cent, mainly due to decline in manufacturing and capital goods sectors growth. The manufacturing output slowed down to 1.8 percent in Q1FY18 as against 6.7 percent same quarter last year.

On the investment front, the recovery continues to remain slow and there are little signs of investment picking up. The year-on-year contraction in capital goods output for the third consecutive month highlights the continuing sluggishness in private sector investment activity. According to the Centre for Monitoring the Indian Economy (CMIE), new project announcements, in Q1FY18 were down by 8 percent on year-on-year basis and 49 percent on quarter-on-quarter basis. At the same time, stalling of projects rose by 6 percent on quarter-on-quarter basis in Q1FY18.Core sector growth expanded at a meagre 2.4 percent during Q1FY18 as against 6.9 percent the same period year ago, mainly dragged down by electricity, coal, refinery products and cement. On the positive side, natural gas and crude oil recorded an uptick in production and steel output remained strong. Core sector output is likely to receive a further fillip amidst traction in road projects, focus on infrastructure projects and housing projects.

The manufacturing Purchasing Managers' Index (PMI) moderated sequentially to a four-month low in June and the Future Output Index also eased marginally. In July, both manufacturing and services PMI plunged into contraction zone in July, with activity contracting to an 8.5 year and 4 year low respectively due to the uncertainty post launch of GST accompanied by a slowdown in sales. As such, composite PMI eased to 46.0 in Jul-17 from 52.7 in the previous month, reflecting wider slowdown in private sector activity.

Meanwhile, inflation has remained benign. The consumer price index hit a new low in June 17, at 1.5 percent. Food prices, the usual driver of inflation in India, had begun to fall some time earlier. Beset on all sides, the RBI cut rates by 25 basis points, bringing the benchmark repurchase rate down to 6 percent, the lowest since Nov 10. With this India's repo rate has moved to the lowest since 2010, with cumulative rate cuts tracking at 200 bps since the start of the rate easing cycle.

The ground indicators such as credit growth and capacity utilization also indicate that the recovery is at a nascent stage. With respect to bank credit growth some traction was witnessed in Q1 FY18. On a sequential basis, credit expanded for the first time in 2017 by 0.7 percent month-on-month, compared to a cumulative contraction of 3.9 percent over Apr-May. Non-food credit growth recorded a marginal pickup in June to 4.8 percent y-o-y from 4.1% in the previous month, but remained lower compared to 7.9% recorded over the same month last year.

On a sectoral basis, improvement was broad based, led by credit off take to services and personal loans. While agriculture credit growth witnessed only a marginal improvement to 7.5 percent y-o-y from 7.4% in May, industrial growth continued to remain in contraction for the 9th consecutive month, albeit the pace of contraction coming in at the lowest in this down cycle. Within industry, credit to micro and small units, was in positive territory (at 0.5 percent y-o-y) for the second consecutive month, after having contracted on a continuous basis in the since March 2016. On the other hand, credit to medium and large industries continued to contract, but at a slower pace in June-17 vis-à-vis May-17. Going forward, the credit growth is expected to pick up with prospects of a good monsoon and strengthening of demand for personal loans. Further, resolution of bank's asset quality concerns along with increase in working capital requirements of corporate with migration to GST will support the credit growth.

Heading forward, much of the focus will remain on the economic adjustments with respect to the recent GST rollout and the policy progress in the Monsoon Session of Parliament. The GST Council in its August 5th meeting approved the e-way bill implementation and setting-up of anti-profiteering committees in all states and centre. Meanwhile, the Lok Sabha approved the Banking Regulation (Amendment) Bill 2017, while the new Labour Code on Wages is expected to be tabled shortly for passage after Cabinet approval.

CII ASCON Industry Survey Results

2.1 Methodology

Confederation of Indian Industry (CII) conducted the CII ASCON Industry Survey to ascertain the performance of industry during April-June (estimated) (Q1) FY18 against the year ago period and against the corresponding quarter, January-March (Q4) FY17.The Survey was conducted over mid-July 2017 till mid of August 2017.

The Survey is based on the feedback collected from industry associations and various manufacturing related companies, numbering more than 35,000. The companies covered in the Survey represent a wide spectrum of sectors including basic goods, intermediate goods, capital goods, consumer durables and non-durables and services. The analysis for the surveyed quarter is based on the sectoral responses received for 78 sectors.

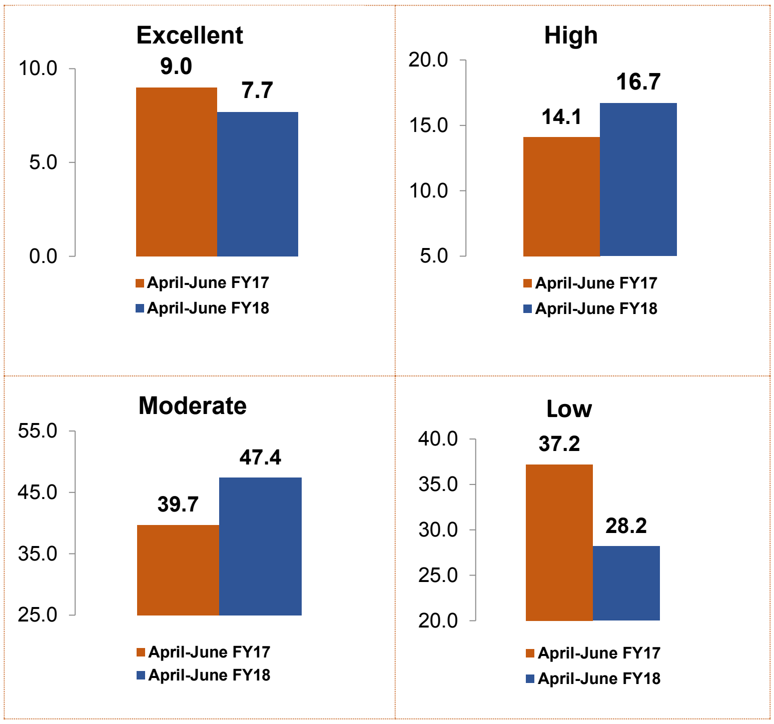
Based on varying rates of growth at the sectoral level, the responses have been segregated in the following four broad categories: (i) 'Excellent' (growth in excess of 20%), (ii) 'High' (growth in the range of 10-20%), (iii) 'Moderate' (growth in the range of 0-10%) and (iv) 'Low' (growth less than 0%).

2.2 Industry growth performance during April-June FY18 over April-June FY17

The results of the latest CII ASCON Industry Survey for April-June FY18 reveals minor improvement in growth trends in terms of production in Q1FY18 quarter over the corresponding quarter a year ago. This is borne out of the fact that out of the sectoral responses received for 78 sectors, while the share of sectors registering 'Excellent' growth (>20%) has come down marginally, the share of sectors registering 'High' (10-20%) and 'Moderate' (0-10%) growth has shown improvement as compared to Q1FY17. At the same time sectors witnessing 'Low' growth (< 0%) has come down as compared to the corresponding period a year ago.

According to the Survey, the share of sectors witnessing 'Excellent' growth registered a slight moderation in Q1FY18 coming down to 7.7 percent (6 out of 78) as against 9.0 percent (7 out of 78) in the same quarter a year ago. The share of sectors witnessing 'High' growth has slightly increased to 16.7 percent (13 out of 78) from 14.1 percent (11 out of 78) recorded in the same quarter previous year. The share of sectors witnessing 'Moderate' growth has improved to 47.4 percent (37 out of 78) in the April-June FY18 from 39.7 percent (31 out of 78) a year ago. At the same time, the number of sectors recording 'Low' growth has declined substantially to 28.2 percent (22 out of 78) as against 37.2 percent (29 out of 78) in the same quarter previous year. This reveals that while the growth trends are still concentrated in the moderate category the pace of de-growth has come down.

Figure 2.1: Industry performance in Q1 FY18 over Q1 FY17 (in %)



A further analysis of the growth trends at the aggregated level with industry being classified into broad segments in terms of performance of production viz 'Excellent' and 'High' (above 10 percent) on one hand and 'Moderate' and 'Low' (below 10 percent) on the other, also point towards slight improvement in the growth trends in the surveyed quarter. The share of sectors registering growth greater than 10 percent has inched up to 24.4 percent in Q1FY18 as compared to 23.1 percent in Q1FY17. At the same time, the share of sectors registering growth less than 10 percent has marginally come down to 75.6 percent in the surveyed quarter as against 76.9 percent recorded in the same period a year ago.

Given the fact that nearly three-fourths of the sectors surveyed still remain below 10 percent growth levels indicate that the pace of recovery continues to be on the slow track in the surveyed quarter.

A further detailed analysis of the sectors reveals a mixed picture of recovery in Q1FY18.

In the primary and intermediate goods categories, a large number of sectors have reported growth numbers falling under the 'Moderate' to 'Low' growth category. While steel production has posted a modest growth, cement production remains in contraction mode. This is despite the Government's continued focus on infrastructure development, affordable housing etc.

Sectors which have shown a positive movement in % growth during Q1 FY18 viz-a -viz Q1 FY17

(Up by 0-10%)	(Up by 10-20%)	(Up by >20%)
Ball & Roller Bearings	Bauxite	Groundnut Oil
Beer	Foreign Tourist Arrivals	Hydro Electric
Capacitors (LT & HT)	Motor Starters	Imported Oils
Circuit Breakers (LT)	Motors (HT)	Lignite
Crude Oil	Natural Gas	Naphta
Diesel	Nuclear	Power Transformer
Distribution Transformer	Passenger Cars	Rape/Mustard
Glass Products	Polyester Filament Yarn	Soya
International Cargo	SSP	Sunflower
Limestone		Tea
LPG		
Machine Tools		
Motors (LT)		
Other Oil		
Passenger Carrier (3W)		
Railways		
Sponge Iron		
Textile Machinery		
Tractors		

The Capital Goods sector, a bellwether for actual implementation of the announcements on the ground, has also shown mixed trends. The subsectors in the capital and engineering goods sectors (like machine tools, textile machinery, earth moving and construction equipment, distribution equipment, tractors etc.) have reported a fall in the 'High' growth category in the current quarter. Sectors like transmission line towers, capacitors, cables have reported moderate growth. This points to the fact that the investment cycle is yet to show its effects in a broader way. A host of factors such as, low order inflows as a result of continued weakness in the private investment and infrastructure space, existing overcapacities in some sectors and the recent demonetization has impacted growth in some sectors.

In terms of production growth, impact of pre-GST inventory de-stocking was visible on production trends in the consumer durables sector. In the auto sector, while the passenger vehicles segment continued to post robust growth, slowing in production was witnessed in other segment in the surveyed quarter.

On services front, freight cargo by air and railways registered a strong performance. The tourism sector was supported by a firm growth of foreign tourist arrivals and air passenger traffic.

Sectors which have shown a downward movement in % growth during Q1 FY18 viz –a viz Q1FY17

(Down by 0-10%)	(Down by 10-20%)	(Down by >20%)
Cement	Bitumen	ATF
Coal	Circuit Breakers (HT)	Construction Equipment Machinery
Domestic Cargo	Fertilizer	DAP
Electricity	Goods Carriers (LCVs)	Goods Carriers (M&HCVs)
Energy Meters	Lubes	Iron Ore
Goods Carrier (3W)	Passenger Carriers (M&HCVs)	Kerosene
Industrial Gases	Petrol	Mopeds
Motor cycles/Step- Throughs	Scooter/Scooterettee	Passenger Carriers (LCVs)
NP/NPK	Thermal	Polyutherene
Nylon Filament Yarn	Utility Vehicles(UVs)	Relay/ Control Panel
Petroleum Refinery		
Plastics Machinery		
Polyester Staple Fibre		
Power Cables - PVC & XLPE		
Transmission Line Towers		
Urea		
Vans		

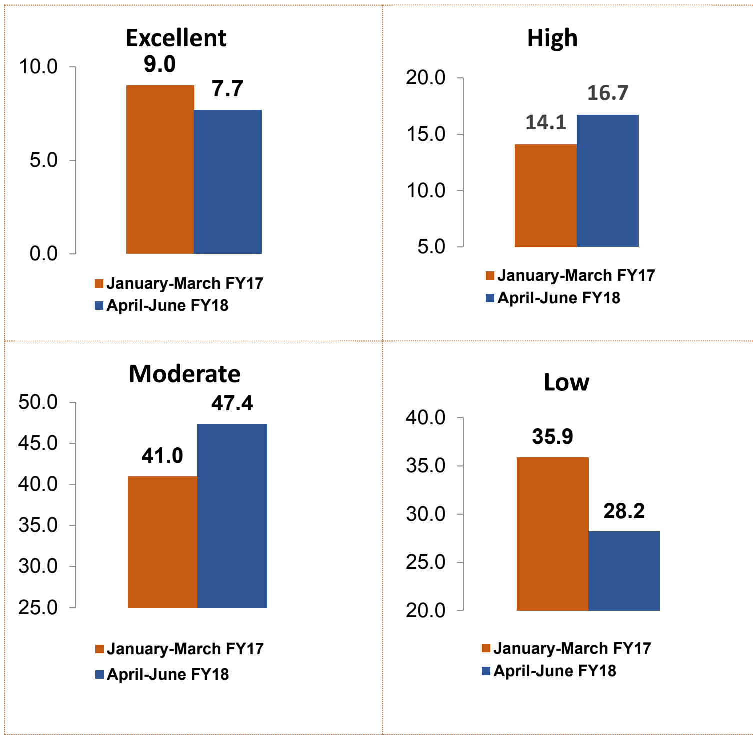
On the consumption front, the data on high frequency indicators reflecting consumption activity such as sale of passenger cars and two-wheelers showed continued robustness in demand. Commercial vehicle sales rose after two successive months of contraction in response to the Bharat Standard (BS)-IV emission compliance switchover. Similarly, the tractor segment, a measure of customer sentiments in the rural markets has also shown improvement.

2.3 Industry growth performance during Q1FY18 over Q4FY17

A further analysis of growth trends on a sequential quarter-on-quarter basis also reveals a minor uptick in the growth trends in Q1FY18 as compared to Q4FY17. According to the Survey, while there has been a marginal decrease in the sectors reporting 'Excellent' growth, there has been a slight increase in the share of the sectors reporting 'High' and 'Moderate' growth. The share of sectors reporting 'Excellent' growth has come down to 7.7 percent (6 out of 78) in Q1FY18 from 9 percent (7 out of 78) witnessed in Q4FY17, whereas the share of sectors reporting 'High' growth has slightly increased to 16.7 percent (13 out of 78) in Q1FY18 from 14.1 percent (11 out of 78) in Q4FY17.

On the other hand, the share of sectors recording 'Moderate' growth has surged to 47.4 percent (37 out of 78 sectors) as compared to 41.0 percent (32 out of 78 sectors) in Q4FY17. The numbers of sectors recording 'Low' growth has declined to 28.2 percent (22 out of 78 sectors) in Q1FY18 as against 35.9 percent (28 out of 78 sectors) in Q4FY17.

Figure 2.2: Industry performance in Q1 FY18 over Q4 FY17 (in %)



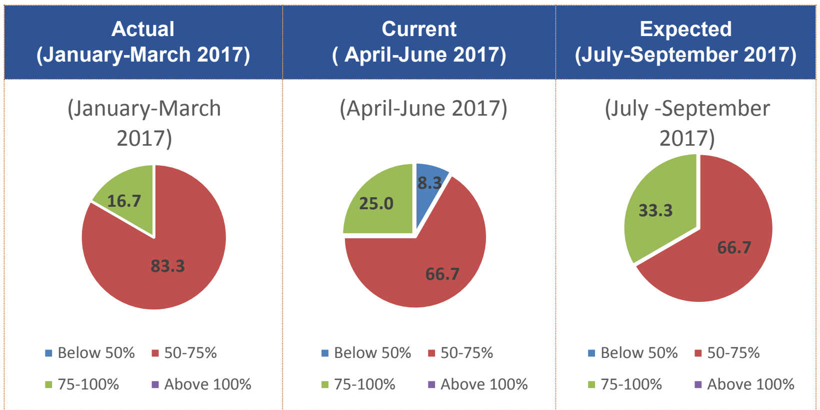
Further, on the growth trends at the aggregated level, with industry being classified into broad segments in terms of performance of production viz 'Excellent' and 'High' (above 10 percent) and 'Moderate' and 'Low' (below 10 percent) also do not reveal any perceptible change in growth in Q1FY18 as compared Q4FY17. The share of sectors registering growth greater than 10 percent has risen marginally to 24.4 percent in Q1FY18 as compared to 23.1 percent in Q4FY17. At the same time, the share of sectors registering growth less than 10 percent has slightly come down to 75.6 percent in the surveyed quarter as against 76.9 percent in the previous quarter. This reaffirms our perception that the recovery continues to be on the slow track.

2.4 Capacity Utilization

In line with the on ground experience, indicating slow private capex along with post demonetization impact and stock liquidation pre GST implementation, the capacity utilization trends have continued to remain weak. According to the survey, around

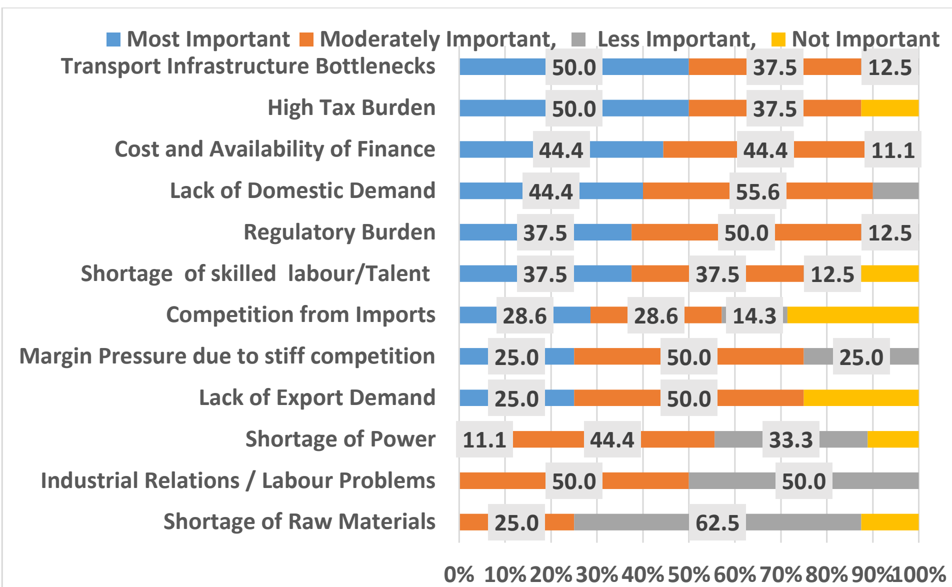
66.7 percent have reported capacity utilization in the range of 50-75 percent for April-June FY18 (figure 2.4). This is in a stark contrast with the previous quarter, where 16.7 percent of the respondents reported the capacity utilization to be in the range of 75-100 percent. 83.3 percent of the respondents have reported capacity utilization to be in the range of 50-75 percent with no response of capacity utilization being below 50 percent for any of the surveyed sectors.

Figure 2.3: Capacity Utilization trends



Going forward, the survey results point towards improvements in capacity utilization in the July-September quarter. Good monsoons, ramping up of production with the onset of the festive season and re-stocking of inventory post implementation of GST are expected to improve the capacity utilization in the quarter ahead. While 66.7 percent of the respondents expect capacity utilization to be in the range on 50-75 percent in Q2FY18, 33.3 percent of the respondents have reported the capacity utilization to be in the range of 75-100 percent. Whereas, no expectations of capacity utilization below 50 percent has been reported for the next quarter.

Figure 2.4: Issues and Constraints



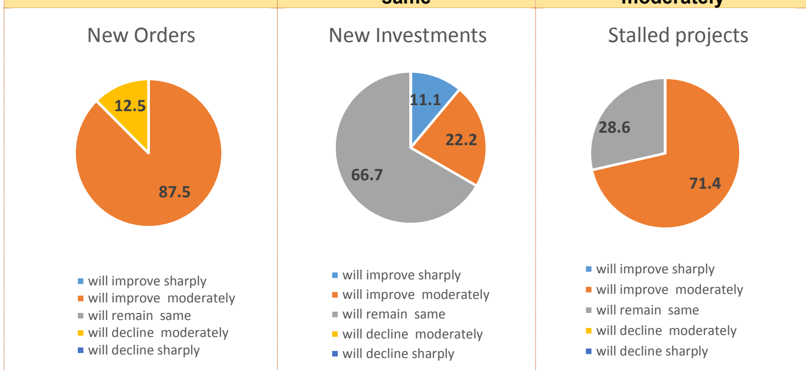
With respect to issues and concerns impacting growth, high tax burden (50.0%) and transport infrastructure bottlenecks (50.0%) have been reported as the top most issues facing the industry. Cost and availability of finance (44.4%) and lack of domestic demand (44.4%) have been cited as the second most important issues, whereas 37.5 percent of the respondents have reported high regulatory burden and shortage of skilled labour/ talent as the most important constraints.

2.5 Outlook for next six months

On the industry outlook for the next six months, overall trends point towards moderate improvement in the business situation in the next two quarters. 75 percent of respondents expect the overall business situation to improve moderately in the next six months.

Figure 2.5: Investment outlook for the next six months

New Orders	New Investments	Stalled projects
More than 4/5th expect new orders to improve moderately	**More than 3/5th expect the situation on new investments to remain same**	**Less than 3/4th of the respondents expect stalled projects to improve moderately**

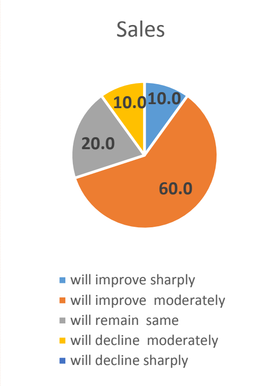


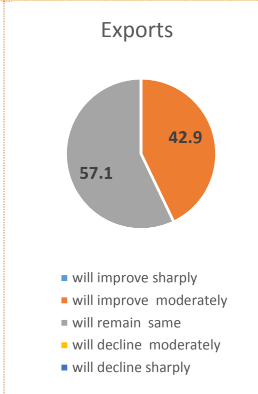
On the new orders front, it is noteworthy that majority of respondents (87.5 percent) of respondents expect the situation to improve, albeit moderately over the next six months. However, at the same time 12.5 percent of the respondents expect the order situation to decline moderately. W.r.t. stalled projects, 71.4 percent of the respondents expect the situation to improve moderately. Further, there are no expectations of deterioration with respect to stalled projects for the next two quarters.

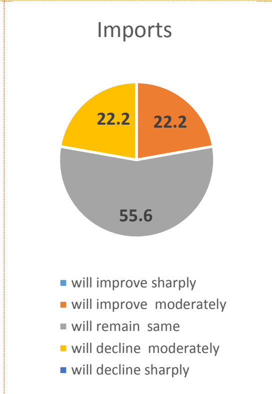
Reflecting no major improvements on the investments front, 66.7 percent of respondents expect situation on new investments to remain same in the next six months, while 22.2 percent of respondents expect moderate improvement, whereas 11.1 percent of the respondents expects sharp improvement.

Figure 2.6: Business outlook for the next six months

Sales	Exports	Imports
3/5th of respondents expect the situation to improve moderately	**Around 3/5th of respondents expect the situation to remain same**	**More than half of the respondents expect the situation to remain same**







3/5th of respondents expect the situation to improve moderately Around 3/5th of respondents expect the situation to remain same More than half of the respondents expect the situation to remain same

Reflecting improvements in demand conditions going forward, 42.9 percent of respondents expect the situation on the exports front to improve moderately, 57.1 percent of respondents expect the situation on exports to remain same. On the imports front, 55.6 percent of respondents expect the situation to remain static whereas 22.2 percent of respondents are of the view the situation will improve moderately. On the sales front, 60 percent of the respondents expect the situation to improve moderately in the next two quarters.

Conclusion

Overall going forward, the survey results point towards improvement in the growth trends. While some GST-related disruptions could spill into early part of the second quarter, growth is expected to strengthen in coming quarters supported by consumption both rural and urban on the back of good monsoons, pay hikes for state government employees and lower lending rates. This along with ramping up of production ahead of festive season and re-stocking of inventory post implementation of GST and a modest pick-up in external demand would also be supportive of recovery in the coming quarters.

Industry Suggestions

The current subdued growth trends warrant attention to continual structural reforms to ensure the necessary growth momentum. To further push the pace of recovery in economic and industrial growth, the respondents to the CII ASCON Industry Survey have suggested the following broad measures:

1. **Putting a strong focus on infrastructure growth**
   - Need for implementation of the various announcements in the Union Budget 2017-18.
   - Reduction in the number of stalled projects to support recovery in the investment cycle.
2. **Demand Creation**
   - Effective implementation of the Public Procurement Policy streamlining of various procurement policies at the state and local level should support in bolstering domestic demand.
3. **Providing level playing field with imports**
   - Reviewing FTAs; Correcting inverted duty structures on raw materials to make indigenous industry more competitive.
4. **Business Environment reforms**
   - Reducing Logistics cost - Developing and promoting coastal shipping and inland water transport; expediting action on reforms related to trade and business environment.
   - Provide ease of doing business for trading across borders as per international standards.
   - Ensuring availability of quality power to the industry; Making open access to power hassle-free.
5. **Smooth Implementation of GST :**

   The GST has usher in a simplified tax structure in the country and is expected to bring in cost efficiencies. While the rates remain structurally positive on various sectors some of issues highlighted by the industry associations with respect to GST are:

- Subsuming 'Road Tax' under GST. As the road tax is set by States and varies widely from 4% to 17% across different states, this will lead additional tax burden on the consumers.
- More clarity on area-based exemptions. The Government has yet to announce tax rates for units availing area-based tax exemptions. Presently under GST, 58% of CGST paid by units availing area-based exemptions will be refunded by the Central Government with the balance 42% is expected to be refunded by the State Government.
- Reviewing GST rates for plastic items for common man, which presently is at 28 percent and bringing it to 18 percent.
- Reviewing the GST on hybrid vehicles. Post GST the tax incidence on hybrid vehicles has increased to 43 percent bringing it in the range of luxury cars.
- Considering lower slab of 18 per cent for important IT products such as monitors of all sizes, networking cables and connectors from the current 28 percent as it will adversely impact value chain
- Reviewing GST rate of 28 percent on construction equipment as with present GST rate imports of construction equipment have become cheaper.
- Reducing the GST rate on supply of works contract services to road projects to 5% and for other projects to 12%.

APPENDIX

Appendix A: Sample coverage and methodology

The CII ASCON Industry Survey, which tracks the growth of different industrial and services sectors of the economy, is based on the feedback collected from industry associations affiliated to CII. The industry associations encompass wide range of sectors from the domain of small, medium and large enterprises spread over the length and breadth of the country. Further, the Survey has enumerated responses from both public and private sectors. The companies covered in the Survey represent a wide spectrum of sectors including basic goods, intermediate goods, capital goods, consumer durables and non-durables and services sector. In most of the cases, these account for approximately 70% of the total industry output in the respective sectors.

The analysis is based on two quarters: April –June FY18 (estimated) and January–March FY17 (actual). The results of each quarter are compared with their corresponding values of previous year. The analysis for April –June FY 18 and for January –March FY 17 is based on 78 responses. The sample covers all sectors of the use-based classification and their summary is described in Table A.1

Table A1: Sample Coverage: Use-based classification of sectors

Sectors	January –March FY 17	April – June FY 18
Basic Goods	25	25
Intermediate Goods	13	13
Capital Goods	10	10
Consumer Durables	13	13
Consumer non-durables	13	13
Other including services	4	4
Total	78	78

Based on varying rates of growth of industrial production, the responses have been collected in the following four broad categories: (i) ‘Excellent’ (growth in excess of 20%), (ii) ‘High’ (growth in the range of 10-20%), (iii) ‘Moderate’ (growth in the range of 0-10%, and (iv) ‘Low’ (growth less than 0%).

Appendix B: Distribution of total sample sectors over different growth ranges

Table B1: Production (April-June FY18 over FY17)

Excellent	High	Moderate	Low
DAP	Construction Equipment Machinery	ATF	Bauxite
Foreign Tourist Arrivals	Domestic Cargo	Ball & Roller Bearings	Bitumen
Groundnut Oil	Hydro Electric	Beer	Cement
Lignite	Imported Oils	Capacitors (LT & HT)	Circuit Breakers (HT)
Power Transformer	Machine Tools	Circuit Breakers (LT)	Coal
Rape/Mustard	Motors (HT)	Crude Oil	Fertilizer
	Naphta	Diesel	Goods Carriers (LCVs)
	Scooter/Scooterette	Distribution Transformer	Goods Carriers (M&HCVs)
	Soya	Electricity	Kerosene
	Tea	Energy Meters	Lubes
	Textile Machinery	Glass Products	Mopeds
	Tractors	Goods Carrier (3W)	NP/NPK
	Utility Vehicles(UVs)	Industrial Gases	Nuclear
		International Cargo	Passenger Carrier (3W)
		Iron Ore	Passenger Carriers (LCVs)
		Limestone	Passenger Carriers (M&HCVs)
		LPG	Polyester Staple Fibre
		Motor cycles/Step-Throughs	Polyutherene
		Motor Starters	Relay/ Control Panel
		Motors (LT)	Transmission Line Towers
		Natural Gas	Urea
		Nylon Filament Yarn	Vans
		Other Oil	
		Passenger Cars	
		Petrol	
		Petroleum Refinery	
		Plastics Machinery	
		Polyester Filament Yarn	
		Power Cables-PVC & XLPE	
		Railways	
		Sponge Iron	
		SSP	
		Steel	
		Steel re rollers	
		Sugar	
		Sunflower	
		Thermal	

Table B2: Sales (April-June FY18 over FY17)

Excellent	High	Moderate	Low
• DAP	• Goods Carriers (LCVs)	• Ball & Roller Bearings	• Goods Carriers (M&HCVs)
• MOP	• Machine Tools	• Beer	• Mopeds
• Scooter/Scooterettee	• Textile Machinery	• Freight Earnings (Railway)	• NKP/NP
• SSP	• Tractors	• Goods Carrier (3W)	• Nylon Filament Yarn
• Tourism (Earnings)	• Urea	• Industrial Gases	• Passenger Carriers (LCVs)
		• Motor cycles/Step-Throughs	• Passenger Carriers (LCVs)
		• Passenger Cars	• Passenger Carriers (M&HCVs)
		• Polyester Filament Yarn	• Polyurethane
		• Polyester Staple Fibre	• Vans
		• Sugar	
		• Utility Vehicles(UVs)	

Table B3: Exports (April-June FY18 over FY17)

Excellent	High	Moderate	Low
• Passenger Carrier (3W)	• Castor Seed Meal	• Ball & Roller Bearings	• Goods Carriers (LCVs)
• Rapeseed Meal	• Goods Carrier (3W)	• Industrial Gas Plant	• Goods Carriers (M&HCVs)
• Soybean Meal	• Motor cycles/Step- Throughs	• Machine Tools	• Mopeds
• Utility Vehicles(UVs)	• Plastic Machinery	• Nylon Filament Yarn	• Passenger Carriers (LCVs)
	• Passenger Carriers (M&HCVs)	• Polyester Filament Yarn	• Ricebran
	• Passenger Cars	• Polyester Staple Fibre	• Sugar
		• Scooter/Scooterettee	• Vans
		• Steel re rollers	
		• Textile Machinery	
		• Tractor	

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Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, playing a proactive role in India's development process. Founded in 1895, India's premier business association has over 8,300 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 200,000 enterprises from around 250 national and regional sectoral industry bodies.

CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organizations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, healthcare, education, livelihood, diversity management, skill development, empowerment of women, and water, to name a few.

The CII theme for 2017-18, India Together: Inclusive. Ahead. Responsible emphasizes Industry's role in partnering Government to accelerate India's growth and development. The focus will be on key enablers such as job creation; skill development and training; affirmative action; women parity; new models of development; sustainability; corporate social responsibility, governance and transparency.

With 67 offices, including 9 Centres of Excellence, in India, and 10 overseas offices in Australia, Bahrain, China, Egypt, France, Germany, Singapore, South Africa, UK, and USA, as well as institutional partnerships with 344 counterpart organizations in 129 countries, CII serves as a reference point for Indian industry and the international business community.

Confederation of Indian Industry
The Mantosh Sondhi Centre
23, Institutional Area, Lodi Road, New Delhi – 110 003 (India)
T: 91 11 45771000 / 24629994-7 • **F:** 91 11 24626149
E: info@cii.in • **W:** www.cii.in